

# THE TENNESSEE ECONOMY: AN OVERVIEW

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Even as the Memphis economy is affected by national economic trends, it is also influenced by the performance of the Tennessee economy. Because Shelby County is the largest county in the state, economic policy decisions at the state level play a critical role in the future success of the Memphis economy. The boom years of the late 1990s covered up the underlying weaknesses in Tennessee's tax and spending policies, which are being painfully revealed now that the national economy is in a recession. The over-reliance on the sales tax has painted the state's budget into the proverbial corner, with little room for maneuvering. The choices offered by a balanced budget amendment are fairly limited: Raise taxes, cut spending, or institute a combination of both.

The vote on a state lottery will not occur until November 2002, half way into fiscal year 2003. If passed, a lottery would likely have no significant effect on the state's budget until fiscal year 2004, which begins in July 2003. Given the possibility that the lottery vote could fail, the challenge for state legislators is to fashion current budgetary decisions as though there were no potential revenues to be generated by a lottery. Last year, \$560 million in tobacco settlement money was used to help balance the state's budget. Some estimates indicate that barring another windfall from an external source, the state will face a budget deficit approaching the \$1 billion mark.

The full effects of the recession and the September 11 attacks are only now beginning to be realized. Clearly, the unemployment rate will certainly rise over the next several months, but current estimates are just beginning to measure the economy's reaction to this unusual combination of events. As such, the following is a brief overview of selected economic indicators in the Tennessee economy.

## POPULATION

Changing demographics in the state have far-reaching implications for the future, including changes in labor force characteristics, changes in the demand for public services, and relocation of housing and industrial patterns. Tennessee is the 16<sup>th</sup> most populous state in the nation, up from 18<sup>th</sup> in 1990. Between 1990 and 2000, Tennessee's resident population increased by 812,098 persons, or 16.7 percent, exceeding the national growth rate of 13.2 percent.

Although the state's population is generally older than that of the U.S., the largest gain during the last decade was in the 45-54 age range, with an increase of 49.5 percent. This was followed by a 33.0 percent gain in the 55-59 age group. The slowest growth was recorded in the 20-24 age group. Such shifts in population are most often attributable to job-related migration patterns that are influenced by the economic structure of both a region and individual states. Suburban sprawl is also evident in Tennessee as the top counties in percentage of population gain were those that surround the state's four major urban cities.

## PER CAPITA INCOME

Tennessee's per capita income totaled \$26,239 in 2000, representing 88.4 percent of the U.S. average and up from 85.9 percent in 1990. During the 1990s, Tennessee's per capita income rose 5.6 percent annually versus 5.2 percent for the nation. Within the state, Williamson County had the highest income (\$38,236), and Lake County had the lowest (\$12,556). Metropolitan areas in Tennessee had per capita incomes of \$28,046, and non-metropolitan areas had \$20,267. Continued gains in per capita income are essential if Tennessee is to continue to prosper in 2002 and beyond.

## HOUSING

Single-family building permits rose 5.0 percent for the first eight months of 2001 versus the comparable 2000 period. By comparison, the U.S. rate was 4.0 percent. In terms of multi-family units, permit activity fell

9.0 percent compared to 2.0 percent nationally. Nashville registered the best gain in single-family permits (up 18.0 percent), while Chattanooga had the largest gain in multi-family permits (up 426.0 percent). Housing is an essential indicator of a state's economic performance. A strong economy and a strong housing market go hand in hand.

## SERVICE-PRODUCING EMPLOYMENT

Growth in total non-agricultural employment in the state has slowed, with an annual rate of increase of 11,700 jobs from September 2000 to September 2001. Jobs in the service sector climbed by 12,400, with the largest gain in the amusements and recreations service sector, up 2,000 workers. Retail trade advanced by 9,900 jobs, with 5,900 workers added in the eating and drinking sector. Transportation employment jumped by 2,100 jobs, while the wholesale trade group added 1,800 jobs. Government employment rose by 4,400 jobs, primarily in the U.S. government (up 1,900 jobs) and local government (up 1,700 jobs) sectors. Within the service-producing category, food stores, communications, and insurance were the only sectors to experience a decline in employment from a year ago. Strong job growth is a critical component of the economy. Recovery in the nation's economy will help Tennessee recover from the slow expansion of its labor market.

## GOODS-PRODUCING EMPLOYMENT

Construction employment advanced by 3,300 jobs over the twelve months ending September 2001. However, manufacturing employment declined by 21,700 workers. The durable goods category lost the lion's share (16,000 jobs), with industrial machinery declining by 3,900 workers. The fabricated metals and transportation equipment sectors declined by 2,000 workers each, and furniture and fixtures fell by 2,800 jobs. Within the non-durable category, the apparel group fell by 2,200 jobs, with an accompanying decline of 1,500 workers in the textile sector. The rubber products sector dropped 2,000 jobs. The only non-durable sector to add workers was the food group, which increased by 1,100 jobs from a year ago.

## STATE TAX COLLECTIONS

For fiscal year 2001, ending in June, sales tax collections totaled \$4.65 billion, a gain of 1.4 percent over fiscal year 2000. This is in contrast to a 6.3 percent jump between fiscal year 1999 and fiscal year 2000. Sales tax collections accounted for 60.6 percent of total state revenue collections. The state's second-largest revenue producer, the business excise tax, generated \$564 million and climbed 9.7 percent during fiscal year 2001. This robust gain, however, represented an increase of just \$59.5 million. The gasoline tax, the third largest revenue producer, recorded a decline of 2.3 percent, or \$13.5 million. This follows the previous annual change of 1.6 percent. Tennessee's investment income tax generated \$198 million for fiscal year 2001, a solid advance of 9.9 percent over fiscal year 2000, but amounted to only \$17.8 million.

For fiscal year 2002, data for the first four months indicate a shortfall of \$108.8 million in total tax collections over fiscal year 2001, a decline of 4.4 percent. Business excise and franchise taxes combined were \$124.0 million below last fiscal year, while the drop in sales tax collections amounted to \$33.7 million. The motor fuel tax had the largest gain at 40.7 percent, or \$20.7 million. Inheritance, gift, and estate taxes grew robustly, but advanced only \$10.4 million above the figure for fiscal year 2001.

## GROSS STATE PRODUCT

Manufacturing contributed \$35.4 billion to gross state product--20.8 percent of the total. This was followed closely by services, which accounted for 20.6 percent. However, on a per employee basis, manufacturing produced \$69,759 per worker, while services produced approximately \$45,271. The third largest sector--generating 14.1 percent of the total--is the finance, insurance and real estate industry. The next highest industries are retail trade and government, each of which accounted for just over 11.0 percent of gross state product.

For the second quarter of 2001, contributions to the growth in earnings were provided by the service industry, which accounted for 53.6 percent of the change in earnings. The finance, insurance, and real estate

sector accounted for 17.3 percent of the change, and government contributed 15.4 percent. The construction and durable goods manufacturing sectors recorded negative contributions to earnings.

## TECHNOLOGY STATUS

A recent report by the Southern Growth Policy Board pinpoints various data items related to the technology innovation potential for several southern states. Chart 1 provides a selected overview of how Tennessee compares to the U.S. average.

	<u>Tennessee</u>	<u>U.S.</u>
Students per internet connection	9.0	7.9
Percentage of households with computers	45.7	51.5
Percentage of households with internet	36.3	41.4
Percentage of households with broadband access	65.0	59.0
Percentage of employment in “gazelle” firms	12.9	13.6
Percentage of employment in tech- intensive firms	7.9	8.4
Percentage of tech-intensive firms	4.0	5.2
University-performed R&D (per \$1,000 gross state product)	\$2.17	\$2.94
Percentage of bachelor’s degrees granted in science and engineering	15.6	16.4